

STATE OF FLORIDA

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OFFICE OF THE GENERAL COUNSEL
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GENERAL COUNSEL
(850) 413-6199

Public Service Commission

March 7, 2014

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COMMISSION
CLERK

Lake Placid Utilities, Inc.
Attn: Mr. Patrick C. Flynn, Regional Director
200 Weathersfield Avenue
Altamonte Springs, Florida 32714-4027

Re: Docket No. 130243-WS, Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.

Dear Mr. Flynn:

This will confirm that Commission staff will hold a customer meeting on Thursday, April 3, 2014. We ask that, if at all possible, you or another knowledgeable representative of the Utility attend the meeting in order to answer customer questions. The location of the general meeting will be as follows:

6:00 p.m., Thursday, April 3, 2014
Deeann Lakefront Estates Clubhouse
409 Stephen Drive
Lake Placid, Florida 33852

As required by Rule 25-22.0407(9)(b), Florida Administrative Code (F.A.C.), the utility shall provide, in writing, a customer meeting notice to all customers within its service area no less than 14 days and no more than 30 days prior to the date of a customer meeting. A draft customer meeting notice is enclosed. Please note the date has been left blank so that you can fill in the date that the notice is sent to the customers. Please furnish me with a copy of the notice, as reproduced at the time it is distributed to your customers, together with a cover letter indicating the exact date(s) on which the notice was mailed or otherwise delivered to the customers.

In addition, we have enclosed two copies of the staff report. Please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407(9)(a), F.A.C., by all interested persons at the following location:

Lake Placid Memorial Library
205 West Interlake Boulevard
Lake Placid, FL 33852

Mr. Patrick Flynn

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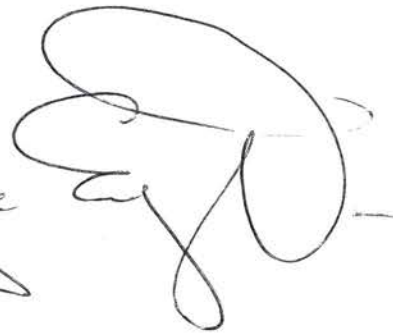

March 7, 2014

For your convenience, I have also enclosed a copy of Rule 25-22.0407(a), F.A.C. Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-6185. In addition, you may contact Matthew Vogel at (850) 413-6453 or Martha Golden at (850) 413-7015, with any questions.

Sincerely,



Lee Eng Tan
Senior Attorney



Enclosures

TLT/mv

cc: Mr. Martin S. Friedman, Esquire
Division of Accounting and Finance (Prestwood, Mouring, Vogel, Golden)
Division of Economics (Hudson, Roberts)
Division of Engineering (Lewis, Watts)
Office of General Counsel (Teitzman, Tan)
Office of Commission Clerk (Docket No. 130243-WS)

Rule 25-22.0407(9), Florida Administrative Code

(9) When a utility applies for a staff-assisted rate case in accordance with Section 367.0814, Florida Statutes, and Rule 25-30.455, F.A.C., and staff-assistance is granted, the requirements of subsections (2), (3), (4), and (5) of this rule shall not apply.

(a) Upon receipt of the staff reports, the utility shall place two copies of its application for staff-assistance and the staff reports at any business offices it has in its service area. Such copies shall be available for public inspection during the utility's regular business hours. If the utility does not have a business office in its service area, the utility shall place two copies of its application and the staff reports at the main county library, the local community center or other appropriate location that is within or most convenient to the service area and that is willing to accept and provide public access to the copies.

(b) No less than 14 days and no more than 30 days prior to the date of a customer meeting conducted by the Commission staff, the utility shall provide, in writing, a customer meeting notice to all customers within its service area and to all persons in the same service areas who have filed a written request for service or who have been provided a written estimate for service within the 12 calendar months prior to the month the petition is filed.

(c) The customer meeting notice shall be approved by the Commission staff prior to distribution and shall include the following:

1. The date the notice was issued;
2. The time, date, location, and purpose of the customer meeting;
3. A statement that the utility has applied for a staff-assisted rate case and the general reasons for doing so;
4. A statement of the location where copies of the application and the staff reports are available for public inspection and the times during which inspection may be made;
5. A comparison of current rates and charges and the proposed new rates and charges;
6. The utility's address, telephone number, and business hours;
7. A statement that written comments regarding utility service or the proposed rates and charges should be addressed to the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, and that such comments should identify the docket number assigned to the proceeding;
8. A statement that complaints regarding service may be made to the Commission's Division of Consumer Affairs at the following toll-free number: 1(800)342-3552.
9. A statement that the Commission will be reviewing the utility's service availability charges in the pending case and that the Commission may adjust those charges.
10. The docket number assigned by the Commission's Division of the Commission Clerk and Administrative Services.

(d) The customer meeting notice shall be mailed to the out-of-town address of all customers who have provided the utility with an out-of-town address.

(e) If the proposed agency action order issued in the case is protested and any hearings are subsequently held, the utility shall give notice in accordance with subsections (6) and (7) above.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
NOTICE OF CUSTOMER MEETING
TO THE CUSTOMERS OF LAKE PLACID UTILITIES, INC.

AND

ALL OTHER INTERESTED PERSONS

DOCKET NO. 130243-WS

APPLICATION OF LAKE PLACID UTILITIES, INC.

FOR A STAFF-ASSISTED RATE CASE IN

HIGHLANDS COUNTY

Issued:

Notice is hereby given that the staff of the Florida Public Service Commission (Commission or PSC) will conduct a customer meeting to discuss the application of Lake Placid Utilities, Inc. (Lake Placid or Utility) for a staff-assisted rate case (SARC) in Highlands County. The meeting will be held at the following time and place:

6:00 p.m., Thursday, April 3, 2014
Deeann Lakefront Estates Clubhouse
409 Stephen Drive
Lake Placid, Florida 33852

All persons who wish to comment are urged to be present at the beginning of the meeting, since the meeting may be adjourned early if no customers are present. One or more of the Commissioners of the Commission may attend and participate in this meeting. The meeting will begin as scheduled and will continue until all the customers have been heard.

If a named storm or other disaster requires cancellation of the meeting, Commission staff will attempt to give timely direct notice to the parties. Notice of the cancellation of the meeting will also be provided on the Commission's website (<http://www.psc.state.fl.us/>) under the Hot Topics link found on the home page. Cancellation can also be confirmed by calling the Commission's Office of the General Counsel at (850) 413-6199.

Any person requiring some accommodation at the customer meeting because of a physical impairment should call the Office of Commission Clerk at (850) 413-6770 at least five calendar days prior to the meeting. Any person who is hearing or speech impaired should contact the Commission by using the Florida Relay Service, which can be reached at 1-800-955-8771 (TDD).

PURPOSE

The purpose of this meeting is to give customers and other interested persons an opportunity to offer comments to Commission staff regarding the quality of service the Utility provides, the proposed

rate increase, and to ask questions and comment on staff's preliminary rates included in this notice as well as other issues. Staff members will summarize Lake Placid's proposed filing, the preliminary work accomplished, and answer questions to the extent possible. A representative from the Utility has also been invited to respond to questions.

At the beginning of the meeting, procedures will be established for the order of comments. Commission staff will have sign-up sheets, and customers will be called to speak in the order that they sign up. Staff will be available to coordinate customers' comments and to assist members of the public.

Any person who wishes to comment or provide information to staff may do so at the meetings, orally or in writing. Written comments may also be sent to the Commission at the address given at the end of this notice. Your letter will be placed in the correspondence file of this docket. You may also submit comments through the Commission's toll-free facsimile line at 1-800-511-0809.

BACKGROUND

Lake Placid is a Class C water and wastewater utility that provides water and wastewater service to approximately 136 water and 210 wastewater customers in Highlands County. According to the Utility's 2012 annual report, Lake Placid had the following total gross operating revenues, operating expenses, and net operating income:

Revenues, Expenses and Net Operating Income

	Water	Wastewater
Operating Revenues	\$57,538	\$70,751
Operating Expenses	\$55,696	\$65,412
Net Operating Income	\$1,842	\$5,339

Lake Placid Utilities began providing service in 1969. The water and wastewater systems were subsequently granted grandfather Certificate Nos. 414-W and 347-S in 1983, when Highlands County transferred jurisdiction of its water and wastewater utilities to the PSC.¹ Utilities, Inc. purchased the systems in 1993 through a bankruptcy proceeding, and the certificates were transferred to Lake Placid Utilities, Inc.² The Utility's certificates were subsequently amended to include additional territory to serve up to 52 potential connections in the Village Del Mar development in 2010.³ Lake Placid's rate base was last established in its 2009 SARC by Order No. PSC-11-0015-PAA-WS, issued January 5, 2011.⁴ Lake Placid is a wholly owned subsidiary of Utilities, Inc., an Illinois corporation that owns approximately 75 utilities throughout 15 states, including 12 water and wastewater utilities in Florida.

¹ See Order No. 12447, issued September 6, 1983, in Docket No. 830141-WS, In re: Application of Lake Placid Utilities for certificates to operate water and sewer systems in Highlands County, pursuant to Section 367.171, Florida Statutes.

² See Order No. PSC-93-1448-FOF-WS, issued October 4, 1993, in Docket No. 930570-WS, In re: Application for Transfer of Certificates Nos. 414-W and 347-S from Lake Placid Utilities to Lake Placid Utilities, Inc.

³ See Order No. PSC-10-0489-FOF-WS, issued August 5, 2010, in Docket No. 100301-WS, In re: Application for amendment of Certificates 414-W and 347-S to extend water and wastewater service areas to include certain land in Highlands County by Lake Placid Utilities, Inc.

⁴ Issued in Docket No. 090531-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.

CURRENT AND PRELIMINARY RATES AND CHARGES

Staff has compiled the following rates and charges for the purpose of discussion at the customer meeting. These rates are preliminary and subject to change based on information gathered at the customer meeting, further staff review, and the final decision by the Commission. The Utility's current, and staff's preliminary rates and charges, are as follows:

LAKE PLACID UTILITIES, INC. – DOCKET NO. 130243-WS		
WATER SERVICE		
	UTILITY'S EXISTING RATES	STAFF'S PRELIMINARY RATES
<u>MONTHLY WATER RATES</u>		
<u>Residential and General Service</u>		
Base Facility Charge by Meter Size:		
5/8" x 3/4"	\$13.85	\$17.81
3/4"	\$20.78	\$26.72
1"	\$34.63	\$44.53
1-1/2"	\$69.26	\$89.05
2"	\$110.81	\$142.48
3"	\$221.63	\$284.96
4"	\$346.30	\$445.25
6"	\$692.60	\$890.50
Charge per 1,000 Gallons	\$5.80	\$7.54
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>		
2,000 Gallons	\$25.45	\$32.89
6,000 Gallons	\$48.65	\$63.05
8,000 Gallons	\$60.25	\$78.13
<u>Initial Customer Deposits (for new connections)</u>		
<u>Residential Service:</u>		
Meter Size:		
5/8" x 3/4"	\$12.00*	\$63.00
All Over 5/8" x 3/4"	\$12.00*	2 x Average Bill
<u>General Service</u>		
All Meter Sizes	\$12.00*	2 x Average Bill
<u>NEW Miscellaneous Service Charges</u>		
Late Payment Charge**	N/A	\$6.50
* Existing customer deposit is \$12.00 or 3 times the average monthly bill, whichever is greater.		
** If both water and wastewater services are provided, only a single charge is appropriate unless circumstances beyond the control of the Utility requires multiple actions.		

**LAKE PLACID UTILITIES, INC. – DOCKET NO. 130243-WS
WASTEWATER SERVICE**

	UTILITY'S EXISTING RATES	STAFF'S PRELIMINARY RATES
<u>MONTHLY WASTEWATER RATES</u>		
<u>Residential</u>		
Base Facility Charge - All Meter Sizes	\$13.94	\$14.18
Charge per 1,000 Gallons (6,000 gallon cap)	\$5.75	\$6.44
Flat Rate	\$27.72	\$25.73
<u>General Service</u>		
Base Facility Charge by Meter Size:		
5/8" x 3/4"	\$13.94	\$14.18
3/4"	\$20.90	\$21.27
1"	\$34.82	\$35.45
1-1/2"	\$69.65	\$70.90
2"	\$111.44	\$113.44
3"	\$222.87	\$226.88
4"	\$348.24	\$354.50
6"	\$696.46	\$709.00
Charge per 1,000 Gallons	\$6.90	\$7.73
<u>Bulk Service</u>		
Deeann Estates	\$474.62	\$476.45
Charge per 1,000 gallons	\$5.52	\$6.19
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>		
2,000 Gallons	\$25.44	\$27.06
6,000 Gallons	\$48.44	\$52.82
8,000 Gallons	\$48.44	\$52.82
(Continued to next page)		

**LAKE PLACID UTILITIES, INC. – DOCKET NO. 130243-WS
WASTEWATER SERVICE (CONTINUED)**

	UTILITY'S EXISTING RATES	STAFF'S PRELIMINARY RATES
<u>Initial Customer Deposits (for new connections)</u>		
<u>Residential Service:</u>		
Meter Size:		
5/8" x 3/4"	\$12.00*	\$50.00
All Over 5/8" x 3/4"	\$12.00*	2 x Average Bill
<u>General Service</u>		
All Meter Sizes	\$12.00*	2 x Average Bill
<u>NEW Miscellaneous Service Charges</u>		
Late Payment Charge**	N/A	\$6.50
* Existing customer deposit is \$12.00 or 3 times the average monthly bill, whichever is greater.		
** If both water and wastewater services are provided, only a single charge is appropriate unless circumstances beyond the control of the Utility requires multiple actions.		

STAFF REPORTS AND UTILITY APPLICATION

The results of staff's preliminary investigation are contained in a staff report dated March 6, 2014. Copies of the report may be examined by interested members of the public from 10:30 a.m. to 6:30 p.m., on Tuesday and from 9:30 a.m. to 5:30 p.m., Wednesday through Saturday, at the following location:

Lake Placid Memorial Library
205 West Interlake Boulevard
Lake Placid, FL 33852

PROCEDURES AFTER CUSTOMER MEETING

After the customer meeting, Commission staff will prepare a recommendation which is scheduled to be submitted to the Commission on May 22, 2014. The Commission will then vote on staff's recommendation at its June 5, 2014 Commission Conference. The Commission will thereafter issue a proposed agency action (PAA) order containing rates which may be different from those contained in staff's final recommendation. Substantially affected persons have 21 days from the date that the PAA order is issued to protest the Commission's PAA order. Five to ten customers or persons who attend the meeting, and who wish to receive a copy of the recommendation and the order should so indicate at the meeting. Those individuals are expected to distribute the information in the recommendation and the order to other customers. Anyone who is unable to attend and who wishes to obtain a copy of the recommendation or the order may do so in writing to the Commission at the address at the end of this notice.

HOW TO CONTACT THE COMMISSION

Written comments regarding the Utility and the proposed rates, and requests to be placed on the mailing list for this case, may be directed to this address:

Director, Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

All correspondence should refer to "Docket No. 130243-WS, Lake Placid Utilities, Inc." If you wish to contact the Commission regarding complaints about service, you may call the Commission's Office of Consumer Assistance and Outreach at the following toll-free number: 1-800-342-3552. This notice was prepared by Commission staff for distribution by the Utility to its customers.

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: March 7, 2014

TO: Clarence Prestwood, Chief of Finance, Tax & Cost Recovery, Division of Accounting & Finance

FROM: Martha Golden, Reg. Supervisor/Consultant, Division of Accounting & Finance *M*
Matthew Vogel, Public Utility Analyst I, Division of Accounting & Finance *mg*
Lydia Roberts, Public Utility Analyst II, Division of Economics *(n)*
Melinda Watts, Engineering Specialist III, Division of Engineering *SH*
Lee Eng Tan, Senior Attorney, Office of the General Counsel *WAT PV*

RE: Docket No. 130243-WS Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.

- STAFF REPORT -

This staff report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

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Case Background

Lake Placid Utilities, Inc. (Lake Placid or Utility) is a Class C water and wastewater utility serving approximately 120 customers in Highlands County. Lake Placid is owned by Utilities, Inc., an Illinois corporation that owns approximately 72 utilities in 15 states, including 12 water and wastewater utilities in Florida. Lake Placid's service territory is located in the Southwest Florida Water Management District (SWFWMD). The Utility's 2012 annual report shows total gross revenues of \$57,538 for water and \$70,751 for wastewater, with net operating income of \$1,842 and \$5,339 for water and wastewater, respectively.

Lake Placid Utilities began providing service in 1969. The water and wastewater systems were subsequently granted grandfather Certificate Nos. 414-W and 347-S in 1983, when Highlands County transferred jurisdiction of its water and wastewater utilities to the Florida Public Service Commission (PSC or Commission).¹ Utilities, Inc. purchased the systems in 1993 through a bankruptcy proceeding, and the certificates were transferred to Lake Placid Utilities, Inc.² The Utility's certificates were subsequently amended to include additional territory to serve up to 52 potential connections in the Village Del Mar development in 2010.³ Lake Placid's rate base was last established in its 2009 staff-assisted rate case (SARC) by Order No. PSC-11-0015-PAA-WS.⁴

In the instant docket, Lake Placid filed its application for a SARC on September 30, 2013. The Utility subsequently completed the Commission's filing requirements, and December 2, 2013 was established as the official filing date in this case. The Commission has jurisdiction in this case pursuant to Sections 367.0814, Florida Statutes (F.S.).

This Staff Report is a **preliminary** analysis of the Utility prepared by the PSC staff to give Utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed May 22, 2014, for the June 5, 2014 Commission Conference) will be revised as necessary using updated information including quality of service or other relevant comments received at the customer meeting.

¹ See Order No. 12447, issued September 6, 1983, in Docket No. 830141-WS, In re: Application of Lake Placid Utilities for certificates to operate water and sewer systems in Highlands County, pursuant to Section 367.171, Florida Statutes.

² See Order No. PSC-93-1448-FOF-WS, issued October 4, 1993, in Docket No. 930570-WS, In re: Application for Transfer of Certificates Nos. 414-W and 347-S from Lake Placid Utilities to Lake Placid Utilities, Inc.

³ See Order No. PSC-10-0489-FOF-WS, issued August 5, 2010, in Docket No. 100301-WS, In re: Application for amendment of Certificates 414-W and 347-S to extend water and wastewater service areas to include certain land in Highlands County by Lake Placid Utilities, Inc.

⁴ Issued January 5, 2011, in Docket No. 090531-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.

Discussion of Issues

Issue 1: Should the quality of service provided by Lake Placid be considered satisfactory?

Preliminary Recommendation: The determination of the quality of water and wastewater service provided by Lake Placid will be deferred until after the customer meeting scheduled for April 3, 2014. (M. Watts)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in every water and wastewater rate case, the Commission shall determine the overall quality of service provided by a utility by evaluating three separate components of water and wastewater operations. These components are the quality of the utility's product, the operating conditions of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the County Health Department over the preceding three-year period shall be considered, along with input from the DEP and health department officials and consideration of customer comments or complaints. Below, staff's preliminary analysis addresses each of these three components.

Quality of Utility's Product

The raw water source is ground water, which is obtained from two wells. The processing sequence for this water treatment system is to pump raw water from the aquifer, inject liquid chlorine, pressurize/storage in a tank, and distribute. Wastewater service is provided via wastewater treatment plant with percolation ponds.

A review of sanitary surveys and compliance inspection reports over the last three years indicates that Lake Placid has generally met all required standards and is current in all of the required chemical analysis for both water and wastewater. Therefore, on a preliminary basis staff recommends that the quality of drinking water delivered to the customers and the wastewater effluent quality should be considered satisfactory.

Operating Condition of the Water and Wastewater Treatment Facilities

The DEP's April 18, 2013 inspection of the water treatment plant's condition found two deficiencies: (1) the well pad on the first well did not extend all the way to the casing and its motor was not bolted down, and (2) the second well had its pad entirely covered with sand and vegetation. The Utility corrected these deficiencies. No deficiencies were noted in its 2012 inspection and deficiencies noted in its 2011 inspections had been corrected.

Based on the DEP's inspection, the condition of the wastewater and water treatment facilities comply with the agency's regulatory standards. Staff will conduct its engineering field investigation in conjunction with the customer meeting scheduled for April 3, 2014, and will address any further findings in its recommendation. Based on the above, it appears that the operating conditions of the wastewater and water treatment facilities are satisfactory.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's complaint records and found that there was one complaint recorded during the test year. However, further investigation revealed that the complainant mistakenly identified Lake Placid as his provider, and the complaint was subsequently redirected to L.P. Utilities. Further, staff reviewed the DEP's records and found no customer complaints on file. At the April 3, 2014 customer meeting in Lake Placid, Florida, customers will be given an opportunity to go on record with specific concerns regarding the Utility's attitude and responsiveness to quality of service issues. All valid quality of service complaints will be investigated and will be taken into consideration during the preparation of staff's final recommendation.

Summary

Currently, staff has reviewed the water treatment plant's sanitary survey and the wastewater treatment plant's yearly evaluation for the past three years, which was provided by DEP. These reports indicate no water quality compliance or facility condition problems. During staff's on-site engineering investigation, staff will review the operating condition of the wastewater and the water treatment plants along with the wastewater collection and water distribution systems. A complete determination of customer satisfaction will not be made until after the April 3, 2014 customer meeting. Based on the above, staff will reserve a final quality of service determination until after the information obtained at the customer meeting has been thoroughly reviewed.

Issue 2: What are the used and useful percentages for the Utility's water and wastewater treatment, distribution and collection systems?

Preliminary Recommendation: Lake Placid's used and useful percentages should be as follows:

Water Treatment Facilities	100%
Wastewater Treatment Facilities	28.5%
Distribution and Collection System	100%

(M. Watts)

Staff Analysis: Staff has performed a preliminary analysis of the Utility's facilities as discussed below.

Water Treatment Plant

Pursuant to Rule 25-30.4325, F.A.C., the used and useful calculation of a water treatment plant is determined by dividing the peak demand by the firm reliable capacity of the water treatment plant. If the system has no storage facilities, the calculation is in gallons per minute (gpm). Consideration of growth, fire flow requirements, unaccounted for water, and other factors may also be included.

The Utility has two wells with a capacity of 200 gpm each. According to the Utility's records, 5.27 million gallons of finished water were produced in the test year and 4.58 million gallons of water were sold. The Utility's peak day of 42,350 gallons or 29.4 gpm occurred on May 6, 2012. It does not appear that there was a fire, line break, or other unusual occurrence on that day. However, the Utility's records indicate that there is unaccounted for water of 0.5608 million gallons for the test year or 10.6 percent. Therefore, with an average daily flow (ADF) of 10.0 gpm, unaccounted for water in excess of 10 percent of ADF is 0.6 percent or 0.06 gpm. The Utility's fire flow requirement is 500 gpm. No growth is projected over the next five years.

As shown below, the water treatment plant should be considered 100 percent used and useful based on a peak day of 29.4 gpm, excessive unaccounted for water (EUW) of 0.06 gpm, a fire flow allowance of 500 gpm, a zero growth allowance, and firm reliable capacity of 200 gpm. With the last three cases, the Utility's EUW has steadily declined from 47 percent to the current level of 0.6 percent.⁵ Staff believes that the Utility has continually attempted to correct the EUW within the system; therefore, no adjustment to operating expenses should be made.

$$[2 \times (29.41 - 0.06) + 500 + 0] / 200 = 100\% \text{ Used \& Useful}$$

⁵ See Order Nos. PSC-11-0015-PAA-WS, issued in Docket No. 090531-WS; PSC-07-0287-PAA-WS, issued April 3, 2007, in Docket No. 060260-WS, In re: Application for increase in water and wastewater rates in Highlands County by Lake Placid Utilities, Inc.; and PSC-96-0910-FOF-WS, issued July 15, 1996, in Docket No. 951027-WS, In re: Application for a rate increase in Highlands County by Lake Placid Utilities, Inc.

Wastewater Treatment Plant

Lake Placid's wastewater treatment plant is an extended aeration activated sludge plant with three lift stations located within the service area. The collection system is composed of gravity and force mains. The wastewater treatment plant is permitted by the DEP at 90,000 gallons per day (gpd) based on the annual average daily flow (AADF). Liquid chlorine disinfection is applied prior to the wastewater effluent flowing into the percolation ponds. Rule 25-30.432, F.A.C., provides that the used and useful percentage for the wastewater plant should be calculated based on customer demand and the permitted capacity of the plant. The rule also provides that customer demand should be determined using the same basis as the permitted capacity. Consideration is given to growth, infiltration and inflow, conservation, and other factors.

The customer demand for the test year based on the AADF was 16,540 gpd. No growth is projected over the next five years. Lake Placid does not have excessive infiltration and inflow based on a comparison of the wastewater treated and an allowance for infiltration and inflow (I&I) based on the size and length of the collection system. Based on this information, the calculation for the wastewater treatment plant (shown below), shows that the plant should be considered 18.4 percent used and useful. However, in the last case, the Commission approved a used and useful percentage of 28.5 percent.⁶ In that case, the Utility had excessive I&I of 15,734 gallons, and has made improvement to its system to address the issue. For the test year, the Utility had no excessive I&I. Based on all of these considerations, staff recommends that the wastewater treatment plant be considered 28.5 percent used and useful.

$$[16,540 + 0 - 0]/90,000 = 18.4\% \text{ Used and Useful}$$

Water Distribution and Wastewater Collection Systems

The used and useful calculations for the water distribution and the wastewater collection systems are based on the number of customers connected to the systems divided by the capacity of the systems. Consideration is given for growth. Because the Utility's current distribution and collection systems are needed to serve the existing customers and a significant portion of the distribution and collection systems were contributed to the Utility, staff recommends that the water distribution and wastewater collection systems be considered 100 percent used and useful.

⁶ See Order No. PSC-11-0015-PAA-WS, issued in Docket No. 090531-WS.

Issue 3: What is the appropriate average test year rate base for Lake Placid?

Preliminary Recommendation: The appropriate average test year rate base for Lake Placid is \$172,165 for water and \$16,912 for wastewater. (Golden, Vogel)

Staff Analysis: Lake Placid's rate base was last established in its 2009 SARC by Order No. PSC-11-0015-PAA-WS.⁷ The test year ended December 31, 2012, was used for the instant case. Commission audit staff conducted two audits for this case. The first audit reviewed the direct costs associated only with the Lake Placid water and wastewater systems. The second audit reviewed affiliate transactions, and focused on the parent company and regional office costs that are allocated to the Lake Placid systems. Staff has incorporated adjustments from both audits in this recommendation. A summary of each component of rate base and the recommended adjustments are discussed below:

Utility Plant in Service (UPIS): The Utility recorded UPIS of \$495,095 for water and \$798,135 for wastewater. The direct cost audit noted no exceptions to the Utility's UPIS balances. The affiliate transaction audit noted that some vehicles were reassigned during the test year to employees whose time is not allocated to Lake Placid. In addition, the motor pool vehicles and special equipment were allocated with an incorrect equivalent residential connection (ERC) factor for Florida. Staff has decreased UPIS by \$4,121 for water and \$4,154 for wastewater to reflect the appropriate allocation of vehicles. Also, Order No. PSC-10-0407-PAA-SU required certain adjustments related to the parent company's Project Phoenix financial, customer care, and billing system to reflect the reduction in the total cost to be recovered following the divestiture of several Florida systems and to increase the amortization period from 8 to 10 years.⁸ The Utility's records did not reflect those adjustments, therefore, staff has decreased UPIS by \$732 for water and \$737 for wastewater to reflect the appropriate allocation of Project Phoenix plant to the Lake Placid systems. Staff has also decreased UPIS by \$560 for water and \$564 for wastewater to reflect the appropriate allocation of Illinois and Florida Headquarters' plant to Lake Placid. Lastly, staff has decreased UPIS by \$4,114 for water and \$92 for wastewater to reflect an averaging adjustment to direct plant. Staff's net adjustments to UPIS are decreases of \$9,527 and \$5,547 for water and wastewater, respectively. Therefore, staff's recommended UPIS balance is \$485,568 for water and \$792,588 for wastewater.

Land & Land Rights: The Utility recorded a test year land value of \$2,796 for water and \$21,665 for wastewater. No adjustments are necessary, therefore, staff recommends that the appropriate land balances are \$2,796 and \$21,665 for water and wastewater, respectively.

Non-Used and Useful Plant: As discussed in Issue 2, Lake Placid's distribution and collection systems should be considered 100 percent used and useful. In addition, the water treatment plant should be considered 100 percent used and useful. The wastewater treatment plant should be considered 28.5 percent used and useful. Further, consistent with the Commission's decision in the Utility's 2006 and 2009 rate cases, this used and useful percentage should also be applied to

⁷ Ibid.

⁸ Issued June 21, 2010, in Docket No. 090381-SU, In re: Application for increase in wastewater rates in Seminole County by Utilities, Inc. of Longwood.

\$170,670 of plant recorded in Account 354.⁹ As such, wastewater rate base should be reduced by \$73,508 to reflect the 71.5 percent of the wastewater treatment plant that is non-used and useful.

Contributions In Aid of Construction (CIAC): The Utility recorded CIAC balances of \$235,199 for water and \$335,881 for wastewater. Commission audit staff reviewed CIAC additions from January 1, 2009 through December 31, 2012, and determined that no adjustments are necessary. Therefore, staff's recommended CIAC is \$235,199 and \$335,881 for water and wastewater, respectively.

Accumulated Depreciation: Lake Placid recorded a test year accumulated depreciation balance of \$184,889 for water and \$575,669 for wastewater. Audit staff recalculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and reflected depreciation associated with plant additions and retirements. No exceptions were noted in the direct audit. As discussed above, the affiliate transactions audit determined that several adjustments were necessary to UPIS related to the allocation of vehicles, Project Phoenix, and headquarters' plant. Staff's corresponding adjustments to accumulated depreciation are shown in Table 3-1 below, in addition to an averaging adjustment to direct accumulated depreciation.

Table 3-1

	<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1.	To reflect appropriate allocation of vehicles.	\$2,854	\$2,877
2.	To reflect appropriate Project Phoenix allocation.	1,258	1,268
3.	To reflect appropriate allocation of Illinois and Florida Headquarters' accumulated depreciation.	901	909
4.	To reflect an averaging adjustment.	<u>10,657</u>	<u>14,370</u>
	Total	<u>\$15,670</u>	<u>\$19,424</u>

As a result of staff's recommended adjustments, the accounts should be decreased by \$15,670 and \$19,424 for water and wastewater, respectively. Staff recommends accumulated depreciation balances of \$169,219 for water and \$556,245 for wastewater.

Accumulated Amortization of CIAC: The Utility recorded amortization of CIAC of \$78,650 for water and \$155,911 for wastewater. Amortization of CIAC has been calculated by audit staff using composite depreciation rates, and no exceptions were noted in the direct audit. Staff has decreased this account by \$3,953 for water and \$5,105 for wastewater to reflect an averaging adjustment. Staff's adjustments to this account result in amortization of CIAC balances of \$74,697 for water and \$150,806 for wastewater.

Net Debit Deferred Income Taxes: During the test year, Lake Placid's capital structure included net debit deferred income taxes in the amount of \$22,175. Audit staff reviewed the Utility's deferred tax records from 2010 through 2012, and determined this is a correct amount. However,

⁹ See Order Nos. PSC-07-0287-PAA-WS, issued in Docket No. 060260-WS, and PSC-11-0015-PAA-WS, issued in Docket No. 090531-WS.

inclusion in the capital structure is inappropriate and is addressed in Issue 4. Rule 25-30.433(3), F.A.C., states:

Used and useful debit deferred taxes shall be offset against used and useful credit deferred taxes in the capital structure. Any resulting net debit deferred taxes shall be included as a separate line item in the rate base calculation. Any resulting net credit deferred taxes shall be included in the capital structure calculation. No other deferred debits shall be considered in rate base when the formula method of working capital is used.

As a preliminary estimate, staff has allocated the net debit deferred taxes to water and wastewater rate base using the ratio of water and wastewater depreciable plant (per books) to total combined plant, resulting in an initial allocation of \$8,489 (38 percent) to water rate base and \$13,686 (62 percent) to wastewater rate base. As discussed above, staff has made an adjustment for non-used and useful wastewater plant in the amount of \$73,508. In order to determine the appropriate used and useful adjustment for deferred taxes, staff has taken the ratio of non-used and useful wastewater plant to depreciable wastewater plant and applied this ratio to the amount of net debit deferred taxes allocated to wastewater rate base, resulting in a reduction of \$2,762. Staff, therefore, recommends that rate base be increased to include used and useful net debit deferred income taxes in the amount of \$8,489 for water and \$10,923 (\$13,686 - \$2,762) for wastewater.

Working Capital Allowance: Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$5,033 for water (based on O&M expense of \$40,262/8), and \$6,564 for wastewater (based on O&M expense of \$52,515/8).

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate base is \$172,165 for water and \$16,912 for wastewater. Water and wastewater rate base is shown on Schedule Nos. 1-A and 1-B, respectively. The related adjustments are shown on Schedule No. 1-C.

Issue 4: What is the appropriate return on equity and overall rate of return for Lake Placid?

Preliminary Recommendation: The appropriate return on equity (ROE) is 10.45 percent with a range of 9.45 percent to 11.45 percent. The appropriate overall rate of return is 8.46 percent. (Golden, Vogel)

Staff Analysis: Because all the capital improvements for this Utility are funded by its parent company, Utilities, Inc., the relative percentages of investor sources of capital of the parent company are used for Lake Placid. According to staff's audit, Lake Placid's test year capital structure reflected the parent company's common equity of \$170,132,500, long-term debt of \$180,000,000, and short-term debt of \$250,000, along with Lake Placid's specific customer deposits of \$770 and negative accumulated deferred income taxes of \$22,175. As previously discussed in Issue 3, staff has decreased the accumulated deferred income taxes by \$22,175 to reclassify the net debit deferred income taxes to rate base. The Utility's capital structure has been reconciled with staff's recommended rate base.

As discussed in Issue 7, staff is recommending the operating ratio methodology be used to calculate the wastewater revenue requirement in this case. Although the traditional rate of return does not apply to the wastewater system in this case, staff recommends that an ROE still be established for the wastewater system. The appropriate ROE for the Utility is 10.45 percent based upon the Commission-approved leverage formula currently in effect.¹⁰ Staff recommends an ROE of 10.45 percent, with a range of 9.45 percent to 11.45 percent, and an overall rate of return of 8.46 percent. The ROE and overall rate of return are shown on Schedule No. 2.

¹⁰ See Order No. PSC-13-0241-PAA-WS, issued June 3, 2013, in Docket No. 130006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

Docket No. 130243-WS

Date: March 7, 2014

Issue 5: What are the appropriate test year revenues?

Preliminary Recommendation: The appropriate test year revenues for this Utility are \$57,778 for water and \$70,940 for wastewater. (Roberts)

Staff Analysis: Lake Placid recorded total test year revenues for water of \$57,538 and wastewater of \$70,751, including service revenues of \$57,046 and \$70,373 and miscellaneous revenues of \$492 and \$378, for water and wastewater, respectively. Based on staff's review of the Utility's billing determinants and the rates that were in effect during the test year, staff recommends the Utility increase the service revenues by \$240 and \$189 for water and wastewater, respectively, to reflect the appropriate test year revenues. Based on the above, staff recommends that the appropriate test year revenues for water and wastewater are \$57,778 and \$70,940, respectively. Test year revenues are shown on Schedule Nos. 3-A and 3-B and adjustments are shown on Schedule No. 3-C.

Issue 6: What is the appropriate amount of operating expense?

Preliminary Recommendation: The appropriate amount of operating expense for the Utility is \$59,957 for water and \$70,170 for wastewater. (Golden, Vogel)

Staff Analysis: Lake Placid recorded operating expense of \$55,697 for water and \$65,413 for wastewater for the test year ended December 31, 2012. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as summarized below:

Salaries and Wages – Employees (601/701) – Lake Placid recorded \$6,253 for water salaries and \$6,303 for wastewater salaries in these accounts. Staff has increased water salaries by \$1,078 and wastewater salaries by \$1,087 to reflect the appropriate allocation of current annualized employee salaries. Therefore, staff recommends salaries and wages – employees expense for the test year of \$7,331 for water and \$7,390 for wastewater.

Employee Pensions and Benefits (604/704) – Lake Placid recorded pensions and benefits of \$2,014 for water and \$2,030 for wastewater for the test year. Staff has decreased these accounts by \$67 for water and \$68 for wastewater to reflect the appropriate allocation of current annualized employee benefits. Staff recommends employee pensions and benefits expense of \$1,947 for water and \$1,962 for wastewater.

Chemicals (618/718) – The Utility recorded chemicals expense of \$832 for water and \$839 for wastewater. Lake Placid allocated chemicals expense to the water and wastewater operations based on ERCs. Commission audit staff reviewed the chemicals expense based on direct deliveries to either the water or wastewater plant, and determined that the wastewater plant incurred higher chemicals expense than the water plant. Accordingly, staff has decreased water by \$499 and increased wastewater by \$499 to reflect the appropriate chemicals expense based upon direct plant deliveries. Also, staff has increased these accounts by \$39 for water and \$195 for wastewater to include two chemical invoices that occurred within the test year. Staff's net adjustments are a \$460 decrease to water and a \$694 increase to wastewater. Therefore, staff recommends chemicals expense of \$372 and \$1,533 for water and wastewater, respectively.

Contractual Services - Other (636/736) – Lake Placid recorded contractual services – other expense of \$14,587 for water and \$14,704 for wastewater. The Utility allocated contractual services expense based on ERCs. A review of the contractual services expense based on direct services performed at either the water or wastewater plant indicates that the wastewater plant received a higher amount of services than the water plant. Therefore, staff has decreased water by \$2,987 and increased wastewater by \$2,987 to reflect the direct contractual services – other expense for each plant. The resulting amounts are \$11,600 for water and \$17,691 for wastewater.

Transportation Expense (650/750) – Lake Placid recorded transportation expense of \$792 for water and \$798 for wastewater for the test year. Staff has increased these accounts by \$254 and \$257 for water and wastewater, respectively, to reflect the appropriate allocation of

transportation expense. Staff recommends transportation expense for the test year of \$1,046 for water and \$1,055 for wastewater.

Regulatory Commission Expense (665/765) – Lake Placid recorded \$5,000 for water and \$5,040 for wastewater for regulatory commission expense in these accounts, which primarily represents rate case expense from the Utility's 2009 SARC. The 4-year amortization of that rate case expense will end on February 22, 2015, at which time the rates will be reduced to remove that expense. Regarding the current rate case, the Utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. For noticing, staff has estimated \$201 for postage expense, \$144 for printing expense, and \$20 for envelopes. This results in \$365 for the noticing requirement. The Utility paid a \$2,000 rate case filing fee (\$1,000 for water and \$1,000 for wastewater). On a preliminary basis, staff has included consulting and attorney fees of \$39,943 based upon the fees approved in the Utility's 2009 SARC. This allowance for the consulting and attorney fees is preliminary and will be reviewed further as the case progresses. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. Based on the above, staff recommends total rate case expense of \$42,308 (\$365+\$2,000+\$39,943), which amortized over 4 years is \$10,577. Staff has allocated the annual rate case expense to the water and wastewater systems based on ERCs, and increased these accounts by \$4,251 for water and \$6,326 for wastewater. The resulting balances for regulatory commission expense are \$9,251 and \$11,366 for water and wastewater, respectively.

Miscellaneous Expense (675/775) – The Utility recorded miscellaneous expense of \$2,032 for water and \$2,246 for wastewater for the test year, which was allocated to the water and wastewater operations based on ERCs. Commission audit staff reviewed miscellaneous expenses based on direct services performed at the respective plants. Accordingly, staff has increased water and decreased wastewater by \$298 each to reflect the appropriate miscellaneous expense based on direct services to the water and wastewater plants. Staff recommends miscellaneous expense of \$2,330 for water and \$1,948 for wastewater.

Operation and Maintenance Expenses (O&M) Summary – Based on the above adjustments, O&M expense should be increased by \$2,367 for water and \$10,985 for wastewater. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-E.

Depreciation Expense – The Utility recorded depreciation expense of \$18,565 for water and \$26,893 for wastewater during the test year. Audit staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and found no exceptions with the Utility's direct depreciation expense. Staff has decreased depreciation expense by \$531 for water and \$535 for wastewater to reflect the appropriate depreciation expense allocation for vehicles. Also, staff has decreased depreciation expense by \$314 for water and \$317 for wastewater to reflect the appropriate Project Phoenix allocation. In addition, staff has decreased depreciation expense by \$48 for water and \$49 for wastewater to reflect the appropriate allocation of the Illinois and Florida Headquarters' depreciation expense. Lastly, staff has decreased depreciation expense by \$6,496 for wastewater to reflect the non-used and useful portion of the test year depreciation expense. Staff's net adjustments are decreases of \$893 for water and \$7,397 for wastewater. Therefore, staff recommends net depreciation expense of \$17,672 and \$19,496 for water and wastewater, respectively.

Taxes Other Than Income (TOTI) – Lake Placid recorded a TOTI balance of \$6,717 for water and \$6,771 for wastewater. Lake Placid allocated the test year regulatory assessment fees (RAFs) to the water and wastewater systems based on ERCs for accounting purposes, but paid test year RAFs based on the direct revenues of each system. Staff has decreased this account by \$220 for water and increased it by \$352 for wastewater to reflect the appropriate test year RAFs based on direct revenues. Similarly, Lake Placid allocated test year direct property taxes based upon ERCs. Staff has decreased water property taxes by \$780 and increased wastewater property taxes by \$780 to reflect the appropriate test year utility property taxes associated with each property. Also, staff has decreased this account by \$38 each for both water and wastewater to reflect the appropriate allocation of payroll taxes. Lastly, staff has decreased this account by \$949 for wastewater to reflect the non-used and useful portion of the test year utility property taxes.

Staff's net adjustment to test year TOTI is a decrease of \$1,038 for water and an increase of \$145 for wastewater. In addition, as discussed in Issue 8, revenues have been increased by \$16,739 for water and \$4,481 for wastewater to reflect the change in revenue required to cover expenses and allow the recommended return on investment for water and operating margin for wastewater. As a result, TOTI should be increased by \$753 for water and \$202 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Therefore, staff recommends TOTI of \$6,432 and \$7,118 for water and wastewater, respectively.

Income Tax – Lake Placid recorded income tax of \$426 for water and \$429 for wastewater. The Utility is an 1120 C corporation and an income tax liability is anticipated in the future. To recognize the Utility's tax liability on a prospective basis, staff has increased water and wastewater income taxes by \$3,071 and \$822, respectively. These adjustments result in income tax expense of \$3,497 for water and \$1,251 for wastewater.

Operating Expenses Summary – The application of staff's recommended adjustments to Lake Placid's test year operating expenses results in operating expenses of \$59,957 for water and \$70,170 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C, 3-D, and 3-E.

Issue 7: Should the Commission utilize the operating ratio methodology as an alternative means to calculate the wastewater revenue requirement for Lake Placid, and, if so, what is the appropriate margin?

Preliminary Recommendation: Yes, the Commission, on its own motion, should utilize the operating ratio methodology for calculating the wastewater revenue requirement for Lake Placid. The margin should be 10.00 percent of O&M expense. (Golden, Vogel)

Staff Analysis: Section 367.0814(9), F.S., provides that the Commission may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a), and (3), F.S. Rule 25-30.456, F.A.C., provides an alternative to a staff-assisted rate case as described in Rule 25-30.455, F.A.C. As an alternative, utilities with total gross annual operating revenue of less than \$250,000 per system may petition the Commission for staff assistance in alternative rate setting.

Although Lake Placid did not petition the Commission for alternative rate setting under the aforementioned rule, staff believes that the Commission should exercise its discretion to employ the operating ratio methodology to set rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on the margin of Lake Placid's O&M expenses. This methodology has been applied in cases in which the traditional calculation of revenue requirements would not provide sufficient revenue to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU,¹¹ the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates. This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. This criteria was applied again in Order No. PSC-97-0130-FOF-SU.¹² Most recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-13-0327-PAA-SU.¹³

By Order No. PSC-96-0357-FOF-WU, the Commission established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria established by Order No. PSC-96-0357-FOF-WU, and how they apply to the Utility are discussed below:

1) Whether the Utility's O&M expense exceeds rate base. The operating ratio method substitutes O&M expense for rate base in calculating the amount of return. A Utility generally would not benefit from the operating ratio method if rate base exceeds O&M expense. The decision to use the operating ratio method depends on the determination of whether the primary risk resides in capital costs or operating expenses. In the instant case, the rate base is less than

¹¹ Issued March 13, 1996, in Docket No. 950641-WU, In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.

¹² Issued February 10, 1997, in Docket No. 960561-SU, In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.

¹³ Issued July 16, 2013, in Docket No. 120270-SU, In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.

the level of O&M expense. The Utility's primary risk resides with covering its operating expense. Based on the staff's recommendation, the adjusted rate base for the test year is \$16,912, while adjusted O&M expense is \$52,515.

2) Whether the Utility is expected to become a Class B utility in the foreseeable future. Pursuant to Section 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenue of \$250,000 or less. Lake Placid is a Class C utility and the recommended revenue requirement of \$75,421 is substantially below the threshold level for Class B status (\$200,000 per system). The Utility's service area has not had any significant growth in the last five years. Therefore, the Utility will not become a Class B utility in the foreseeable future.

3) Quality of service and condition of plant. As discussed in Issue 1, the recommended quality of service will not be finalized until after the April 3, 2014 customer meeting.

4) Whether the Utility is developer-owned. The current Utility owner is not a developer.

5) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. The issue is whether or not purchased water and/or wastewater costs should be excluded in the computation of the operating margin. Lake Placid operates a wastewater treatment plant and collection system.

Based on staff's review of the Utility's situation relative to the above criteria, staff recommends that Lake Placid is a viable candidate for the operating ratio methodology.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, the Commission determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. The important question is not what the return percentage should be, but what level of operating margin will allow the utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for the Utility to cover its interest expense. The total interest expense is \$8,773. Based upon the ratio of the Utility's water and wastewater rate bases before staff's adjustments, approximately 29 percent or \$2,552 of the total interest expense should be allocated to the wastewater system. The Utility's return on rate base results in \$1,430 in operating income, which is insufficient to cover the wastewater system's share of interest expense and results in a \$1,122 revenue shortfall.

Second, use of the operating ratio methodology rests on the contention that the principal risk to the utility resides in operating cost rather than in capital cost of the plant. The fair return on a small rate base may not adequately compensate the utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, the margin should adequately compensate the utility owner for that risk. Under the rate base method, the return to Lake Placid would be \$1,430, which is enough to cover only an approximate 2.72 percent

variance in O&M expense, excluding the interest expense discussed above. Staff believes \$1,430 may be an insufficient financial cushion.

Third, if the return on rate base method was applied, a normal return would generate such a small level of revenue that in the event revenue or expenses vary from staff's estimates, Lake Placid could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenue to protect against potential variability in revenue and expenses. The return on rate base method would provide the Utility only \$1,430. After deducting interest expense, Lake Placid would experience a \$1,122 revenue shortfall, leaving no additional operating income to cover revenue and expense variances. If the Utility's operating expenses increase or revenue decreases, Lake Placid would not have the funds required for day-to-day operations.

In conclusion, staff believes the above factors show that the Utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Lake Placid with adequate cash flow to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 10.00 percent of O&M expense for determining the revenue requirement.

Issue 8: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is \$74,517 for water and \$75,421 for wastewater, resulting in an annual increase of \$16,739 for water (28.97 percent), and an annual increase of \$4,481 for wastewater (6.32 percent). (Golden, Vogel)

Staff Analysis: Lake Placid should be allowed an annual increase of \$16,739 for water (28.97 percent) and \$4,481 for wastewater (6.32 percent). This will allow the Utility the opportunity to recover its expenses and earn an 8.46 percent return on its investment for water and a 10.00 percent cushion over its O&M expenses for wastewater. The calculations are shown in Tables 8-1 and 8-2 for water and wastewater, respectively:

Table 8-1

<u>Water Revenue Requirement</u>	
Adjusted Rate Base	\$172,165
Rate of Return	<u>x 8.46%</u>
Return on Rate Base	\$14,560
Adjusted O&M Expense	40,262
Depreciation Expense	17,672
Amortization	(7,906)
Taxes Other Than Income	6,432
Income Taxes	<u>3,497</u>
Revenue Requirement	\$74,517
Less Adjusted Test Year Revenues	<u>57,778</u>
Annual Increase	<u>\$16,739</u>
Percent Increase/(Decrease)	<u>28.97%</u>

Table 8-2

<u>Wastewater Revenue Requirement</u>	
Adjusted O&M Expense	\$52,515
Operating Margin Ratio	<u>10.00%</u>
Operating Margin	\$5,251
Adjusted O&M Expense	52,515
Depreciation Expense	19,496
Amortization	(10,210)
Taxes Other Than Income	7,118
Income Tax	<u>1,251</u>
Revenue Requirement	\$75,421
Less Adjusted Test Year Revenues	<u>\$70,940</u>
Annual Increase	<u>\$4,481</u>
Percent Increase/(Decrease)	<u>6.32%</u>

Issue 9: What are the appropriate rate structures and rates for Lake Placid's water and wastewater systems?

Preliminary Recommendation: The preliminary recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for services rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Roberts)

Staff Analysis:

Water Rates

The Utility is located in Highlands County within the SWFWMD. The Utility provides water service to approximately 120 customers. Approximately 53 percent of the residential customer bills have 1,000 gallons or less, indicating a very seasonal customer base. The average residential water demand is 1,798 gallons per month. The average residential water demand, excluding zero gallon bills, is 2,924 gallons per month. Currently, Lake Placid's water system rate structure consists of a BFC and gallonage charge for both residential and general service customers.

Staff performed an analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the utility's customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression, and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

Due to the customers' low average monthly consumption and the seasonal nature of the customers, staff recommends that 54 percent of the water revenues should be generated from the BFC in order to ensure that the Utility will have sufficient cash flow to cover fixed costs. The average people per household served by the water system is three; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 5,000 gallons per month. However, the number of repressed gallons related to discretionary usage is insignificant as there is very low average usage. As a result, there is no need for a non-discretionary threshold or a repression adjustment. Staff recommends a continuation of a traditional BFC and gallonage charge rate structure for both residential and general service customers. Staff's recommended rate structure is shown on Schedule No. 4-A.

Wastewater Rates

The Utility provides wastewater service to approximately 120 customers, 1 bulk service customer that serves 70 units at Deeann Estates, and 3 unmetered flat rate customers. Approximately 53 percent of the residential customer bills have usage of 1,000 gallons or less indicating the customer base is very seasonal. The average water demand for wastewater customers is 1,794 gallons per month. Currently, the residential rate structure for the wastewater system consists of a uniform BFC for all meter sizes and a gallonage charge with a 6,000 gallon cap. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. The bulk service customer, Deeann Estates, is billed a BFC based on 80 percent of the number of equivalent residential connections (ERCs) connected to the system. Each unit is .6 ERC per Order No. PSC-07-0287-PAA-WS.¹⁴ The gallonage charge for the bulk service customer is 80 percent of the general service gallonage charge. The three unmetered residential wastewater customers are billed a flat rate.

Staff performed an analysis of the Utility's billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; and (3) implement a gallonage cap that considers the amount of water that may return to the wastewater system.

Currently, the Utility has a gallonage cap for residential wastewater customers of 6,000 gallons. Based on the billing data, staff believes the existing gallonage cap should continue at 6,000 gallons. There is no cap for general service customers. Furthermore, staff recommends the general service gallonage charge remain at 1.2 times greater than the residential gallonage charge. The proposed BFC recovers approximately 50 percent of the recommended revenue requirement, consistent with Commission practice.

In prior cases, the Commission has found Deeann Estates' rate structure should take into consideration that it owns its lift station, and the cost associated with paying for the electrical pumping power and maintenance of the lift station are its responsibility and not Lake Placid's.¹⁵ As result, staff recommends a continuation of the BFC for Deeann Estates based 80 percent of the number of ERCs connected to the system. The gallonage charge for the bulk service customer should be continued at 80 percent of the general service gallonage charge. The three unmetered residential wastewater customers should continue to be billed a flat rate. Staff's recommended rate design for the wastewater system is shown on Schedule No. 4-B.

Summary

Based on the foregoing, staff recommends 54 percent of the water revenues should be generated from the BFC. A repression adjustment for residential customers is not warranted in

¹⁴ Issued in Docket No. 060260-WS.

¹⁵ See Order Nos. PSC-11-0015-PAA-WS, issued in Docket No. 090531-WS, and PSC-07-0287-PAA-WS, issued in Docket No. 060260-WS.

this case. The traditional BFC and gallonage charge rate structure should be approved for residential and general service customers.

Staff recommends that the residential wastewater customers' rate structure should consist of a BFC for all meter sizes, based on a 50 percent allocation of wastewater revenue from the BFC, with a cap of 6,000 gallons. The general service wastewater customers should continue to be billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. The bulk service customer should continue to be billed a BFC based on 80 percent of the number of ERCs actually connected to the system. The bulk customer's gallonage charge should be set at 80 percent of the general service gallonage charge. The Utility should continue to bill the three unmetered residential wastewater customers a flat rate.

The preliminary recommended monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 10: What are the appropriate initial customer deposits for Lake Placid?

Preliminary Recommendation: The appropriate initial customer deposits should be \$63 and \$50 for the residential 5/8" x 3/4" meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Roberts)

Staff Analysis: Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.¹⁶ Currently, the Utility's existing initial deposits are \$12 for both water and wastewater. Based on staff's recommended rates, the existing initial customer deposits are not sufficient to cover two months' bills for water and wastewater, respectively. Staff recommends the existing initial customer deposit be increased to reflect two times the average estimated bill for both water and wastewater to ensure that the cost of providing service is recovered from the cost causer.¹⁷

Staff recommends the appropriate initial customer deposits should be \$63 and \$50 for the residential 5/8" x 3/4" meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

¹⁶ See Order Nos. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.; and PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

¹⁷ See Order Nos. PSC-03-1119-PAA-SU, issued October 7, 2003, in Docket No. 030106-SU, In re: Application for staff-assisted rate case in Lee County by Environmental Protection Systems of Pine Island, Inc.; and PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, In Re: Application for transfer of Certificate No. 123-W in Lake County from Theodore S. Jansen d/b/a Ravenswood Water System to Crystal River Utilities, Inc.

Issue 11: Should Lake Placid's request to implement a \$6.50 late payment charge be approved?

Preliminary Recommendation: Yes. Lake Placid's request to implement a \$6.50 late payment charge should be approved. Lake Placid should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge should be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than ten days after the date of the notice. (Roberts)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or services availability charges. The Utility is requesting a \$6.50 late payment charge to recover the cost of supplies and labor associated with processing late payment notices. The Utility's request for a late payment charge was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091, F.S.

In the past, the Commission has allowed 10-15 minutes per account for clerical and administrative labor to research, review, and prepare the notice.¹⁸ The Utility indicated it spends approximately nine minutes on each delinquent account, which is reasonable and consistent with other utilities regulated by the Commission. The late payment notices are processed by the account manager, which results in labor cost of \$5.85 (9/60 x \$39) per account. The cost basis for the late payment charge, including the labor, is shown below.

Cost Basis for Late Payment Charge

Labor	\$5.85
Printing	\$0.12
Postage	\$0.48
Supplies	<u>\$0.08</u>
Total	\$6.53

Based on staff's research, since the late 1990s, the Commission has approved late payment charges ranging from \$2.00 to \$7.00.¹⁹ The purpose of this charge is not only to

¹⁸ See Order Nos. PSC-11-0204-TRF-SU, issued April 25, 2011, in Docket No. 100413-SU, In re: Request for approval of tariff amendment to include a late fee of \$14.00 in Polk County by West Lakeland Wastewater; PSC-08-0255-PAA-WS, issued April 24, 2008, in Docket No. 070391-WS, In re: Application for certificates to provide water and wastewater service in Sumter County by Orange Blossom Utilities, Inc.; and PSC-01-2101-TRF-WS, issued October 22, 2001, in Docket No. 011122-WS, In re: Tariff filing to establish a late payment charge in Highlands County by Damon Utilities, Inc.

¹⁹ See Order Nos. PSC-01-2101-TRF-WS, issued in Docket No. 011122-WS; PSC-08-0255-PAA-WS, issued in Docket No. 070391-WS; PSC-09-0752-PAA-WU, issued November 16, 2009, in Docket No. 090185-WU, In re: Application for grandfather certificate to operate water utility in St. Johns County by Camachee Island Company, Inc. d/b/a Camachee Cove Yacht Harbor Utility; PSC-10-0257-TRF-WU, issued April 26, 2010, in Docket No. 090429-WU, In re: Request for approval of imposition of miscellaneous service charges, delinquent payment charge and meter tampering charge in Lake County, by Pine Harbour Water Utilities, LLC.; and PSC-11-0204-TRF-SU, issued in Docket No. 100413-SU.

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provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing delinquent accounts solely upon those who are cost causers.

Based on the above, staff recommends that Lake Placid's request to implement a \$6.50 late payment charge should be approved. Lake Placid should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge should be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than ten days after the date of the notice.

Issue 12: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Preliminary Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Lake Placid should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Golden, Vogel, Roberts)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital for water, the associated operating margin for wastewater, and the gross-up for RAFs. The total reductions are \$4,499 for water and \$7,286 for wastewater.

The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Lake Placid should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 13: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Preliminary Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility. Lake Placid should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Golden, Vogel)

Staff Analysis: This recommendation proposes an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. Lake Placid should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

The Utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$11,433. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or,
- 2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If the Utility chooses a letter of credit as a security, it should contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect, and,

- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

- 1) No monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and,
- 9) The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The Utility should maintain a record of the amount of the security, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

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Issue 14: Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission approved adjustments?

Preliminary Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Lake Placid should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. (Golden, Vogel)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, Lake Placid should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made.

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Date: March 7, 2014

Issue 15: Should this docket be closed?

Preliminary Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively. (Tan)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively.

LAKE PLACID UTILITIES, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 12/31/12		DOCKET NO. 130243-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$495,095	(\$9,527)	\$485,568
LAND & LAND RIGHTS	2,796	0	2,796
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(235,199)	0	(235,199)
ACCUMULATED DEPRECIATION	(184,889)	15,670	(169,219)
AMORTIZATION OF CIAC	78,650	(3,953)	74,697
NET DEBIT DEFERRED INCOME TAXES	0	8,489	8,489
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>5,033</u>	<u>5,033</u>
WATER RATE BASE	<u>\$156,453</u>	<u>\$15,712</u>	<u>\$172,165</u>

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LAKE PLACID UTILITIES, INC.		SCHEDULE NO. 1-B	
TEST YEAR ENDED 12/31/12		DOCKET NO. 130243-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$798,135	(\$5,547)	\$792,588
LAND & LAND RIGHTS	21,665	0	21,665
NON-USED AND USEFUL COMPONENTS	0	(73,508)	(73,508)
CIAC	(335,881)	0	(335,881)
ACCUMULATED DEPRECIATION	(575,669)	19,424	(556,245)
AMORTIZATION OF CIAC	155,911	(5,105)	150,806
NET DEBIT DEFERRED INCOME TAXES	0	10,923	10,923
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>6,564</u>	<u>6,564</u>
WASTEWATER RATE BASE	<u>\$64,161</u>	<u>(\$47,249)</u>	<u>\$16,912</u>

LAKE PLACID UTILITIES, INC.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 12/31/12		DOCKET NO. 130243-WS	
ADJUSTMENTS TO RATE BASE		PAGE 1 OF 1	
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1. To reflect appropriate allocation of vehicles.	(\$4,121)	(\$4,154)	
2. To reflect appropriate Project Phoenix allocation per Order No. PSC-10-0407-PAA-SU.	(732)	(737)	
3. To reflect appropriate allocation of Illinois and Florida Headquarters' plant.	(560)	(564)	
4. To reflect an averaging adjustment	<u>(4,114)</u>	<u>(92)</u>	
Total	<u>(\$9,527)</u>	<u>(\$5,547)</u>	
<u>NON-USED AND USEFUL PLANT</u>			
1. To reflect non-used and useful plant.		(\$161,106)	
2. To reflect non-used and useful accumulated depreciation.		87,598	
Total		<u>(\$73,508)</u>	
<u>ACCUMULATED DEPRECIATION</u>			
1. To reflect appropriate allocation of vehicles.	\$2,854	\$2,877	
2. To reflect appropriate Project Phoenix allocation per Order No. PSC-10-0407-PAA-SU.	1,258	1,268	
3. To reflect appropriate allocation of Illinois and Florida Headquarters' plant.	901	909	
4. To reflect an averaging adjustment.	10,657	14,370	
Total	<u>\$15,670</u>	<u>\$19,424</u>	
<u>AMORTIZATION OF CIAC</u>			
To reflect an averaging adjustment.	<u>(\$3,953)</u>	<u>(\$5,105)</u>	
<u>NET DEBIT DEFERRED INCOME TAXES</u>			
To reclassify debit deferred income taxes from Cost of Capital.	<u>\$8,489</u>	<u>\$10,923</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year O&M expenses.	<u>\$5,033</u>	<u>\$6,564</u>	

LAKE PLACID UTILITIES, INC. TEST YEAR ENDED 12/31/12 SCHEDULE OF CAPITAL STRUCTURE							SCHEDULE NO. 2 DOCKET NO. 130243-WS	
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS*	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON EQUITY	\$170,132,500	\$0	\$170,132,500	(\$170,041,065)	\$91,435	48.36%	10.45%	5.05%
2. LONG-TERM DEBT	\$180,000,000	\$0	\$180,000,000	(\$179,903,262)	\$96,738	51.16%	6.64%	3.40%
3. SHORT-TERM DEBT	250,000	0	250,000	(249,866)	134	0.07%	0.00%	0.00%
4. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL DEBT	\$180,250,000	\$0	\$180,250,000	(\$180,153,128)	\$96,872	51.23%		
5. CUSTOMER DEPOSITS	\$770	\$0	\$770		\$770	0.41%	2.00%	0.01%
6. DEFERRED INCOME TAXES	(\$22,175)	\$22,175	\$0		\$0	0.00%	0.00%	0.00%
7. TOTAL	\$350,361,095	\$22,175	\$350,383,270	(\$350,194,193)	\$189,077	100.00%	19.09%	8.46%
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						9.45%	11.45%	
OVERALL RATE OF RETURN						7.97%	8.94%	
<p>Note: Common equity, long-term debt, and short-term debt are actual for Lake Placid Utilities, Inc.'s parent company, Utilities, Inc., and customer deposits and accumulated deferred income taxes are actual for Lake Placid Utilities, Inc.</p>								

LAKE PLACID UTILITIES, INC.			SCHEDULE NO. 3-A		
TEST YEAR ENDED 12/31/12			DOCKET NO. 130243-WS		
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$57,538</u>	<u>\$240</u>	<u>\$57,778</u>	<u>\$16,739</u> 28.97%	<u>\$74,517</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$37,895	\$2,367	\$40,262	\$0	\$40,262
3. DEPRECIATION	18,565	(893)	17,672	0	17,672
4. AMORTIZATION	(7,906)	0	(7,906)	0	(7,906)
5. TAXES OTHER THAN INCOME	6,717	(1,038)	5,679	753	6,432
6. INCOME TAXES	<u>426</u>	<u>0</u>	<u>426</u>	<u>3,071</u>	<u>3,497</u>
7. TOTAL OPERATING EXPENSES	<u>\$55,697</u>	<u>\$436</u>	<u>\$56,133</u>	<u>\$3,824</u>	<u>\$59,957</u>
8. OPERATING INCOME/(LOSS)	<u>\$1,841</u>		<u>\$1,645</u>		<u>\$14,560</u>
9. WATER RATE BASE	<u>\$156,453</u>		<u>\$172,165</u>		<u>\$172,165</u>
10. RATE OF RETURN	<u>1.18%</u>		<u>0.96%</u>		<u>8.46%</u>

LAKE PLACID UTILITIES, INC.			SCHEDULE NO. 3-B			
TEST YEAR ENDED 12/31/12			DOCKET NO. 130243-WS			
SCHEDULE OF WASTEWATER OPERATING INCOME						
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$70,751</u>	<u>\$189</u>	<u>\$70,940</u>	<u>\$4,481</u> 6.32%	<u>\$75,421</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$41,530	\$10,985	\$52,515	\$0	\$52,515	
3. DEPRECIATION	26,893	(7,397)	19,496	0	19,496	
4. AMORTIZATION	(10,210)	0	(10,210)	0	(10,210)	
5. TAXES OTHER THAN INCOME	6,771	145	6,916	202	7,118	
6. INCOME TAXES	<u>429</u>	<u>0</u>	<u>429</u>	<u>822</u>	<u>1,251</u>	
7. TOTAL OPERATING EXPENSES	<u>\$65,413</u>	<u>\$3,733</u>	<u>\$69,146</u>	<u>\$1,024</u>	<u>\$70,170</u>	
8. OPERATING INCOME/(LOSS)	<u>\$5,338</u>		<u>\$1,794</u>		<u>\$5,251</u>	
9. WASTEWATER RATE BASE	<u>\$64,161</u>		<u>\$16,912</u>		<u>\$16,912</u>	
10. OPERATING RATIO						<u>10.00%</u>

LAKE PLACID UTILITIES, INC.		Schedule No. 3-C	
TEST YEAR ENDED 12/31/12		DOCKET NO. 130243-WS	
ADJUSTMENTS TO OPERATING INCOME		Page 1 of 1	
	<u>WATER</u>	<u>WASTEWATER</u>	
OPERATING REVENUES			
To reflect the appropriate test year services revenues.	\$240	\$189	
OPERATION AND MAINTENANCE EXPENSES			
1. Salaries and Wages - Employees (601/701)			
a. To reflect appropriate allocation of annualized salaries.	\$1,078	\$1,087	
2. Employee Pensions and Benefits (604/704)			
a. To reflect appropriate allocation of annualized employee benefits.	(\$67)	(\$68)	
3. Chemicals (618/718)			
a. To reflect chemicals expense based on direct deliveries to each plant.	(\$499)	\$499	
b. To include two chemical invoices that occurred within the test year.	39	195	
Subtotal	(\$460)	\$694	
4. Contractual Services - Other (636/736)			
a. To reflect appropriate contractual services expense based on direct service performed at each plant.	(\$2,987)	\$2,987	
5. Transportation Expense (650/750)			
a. To reflect appropriate transportation expense allocation.	\$254	\$257	
6. Regulatory Commission Expense (665/765)			
a. To reflect 4-year amortization of rate case expense (\$17,005/4 for water and \$25,303/4 for wastewater).	\$4,251	\$6,326	
7. Miscellaneous Expense (675/775)			
a. To reflect miscellaneous expense based on direct services to each plant.	\$298	(\$298)	
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$2,367</u>	<u>\$10,985</u>	
DEPRECIATION EXPENSE			
1. To reflect depreciation expense allocation for assigned vehicles.	(\$531)	(\$535)	
2. To reflect Project Phoenix depreciation expense allocation.	(314)	(317)	
3. To reflect Illinois/Florida Headquarters' depreciation expense allocation.	(48)	(49)	
4. To reflect non-used and useful depreciation expense.		(6,496)	
Total	(\$893)	(\$7,397)	
TAXES OTHER THAN INCOME			
1. To reflect the appropriate test year RAFs.	(\$220)	\$352	
2. To reflect appropriate test year utility property taxes.	(780)	780	
3. To reflect appropriate allocation of payroll taxes.	(38)	(38)	
4. To reflect non-used and useful property taxes.		(949)	
Total	(\$1,038)	\$145	

LAKE PLACID UTILITIES, INC.	SCHEDULE NO. 3-D		
TEST YEAR ENDED 12/31/12	DOCKET NO. 130243-WS		
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$6,253	\$1,078	\$7,331
(603) SALARIES AND WAGES - OFFICERS	761	0	761
(604) EMPLOYEE PENSIONS AND BENEFITS	2,014	(67)	1,947
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,413	0	2,413
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	832	(460)	372
(620) MATERIALS AND SUPPLIES	1,566	0	1,566
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	253	0	253
(635) CONTRACTUAL SERVICES - TESTING	0	0	0
(636) CONTRACTUAL SERVICES - OTHER	14,587	(2,987)	11,600
(640) RENTS	12	0	12
(650) TRANSPORTATION EXPENSE	792	254	1,046
(655) INSURANCE EXPENSE	1,039	0	1,039
(665) REGULATORY COMMISSION EXPENSE	5,000	4,251	9,251
(670) BAD DEBT EXPENSE	341	0	341
(675) MISCELLANEOUS EXPENSE	<u>2,032</u>	<u>298</u>	<u>2,330</u>
	<u>\$37,895</u>	<u>\$2,367</u>	<u>\$40,262</u>

LAKE PLACID UTILITIES, INC.		SCHEDULE NO. 3-E	
TEST YEAR ENDED 12/31/12		DOCKET NO. 130243-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENTS	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$6,303	\$1,087	\$7,390
(703) SALARIES AND WAGES - OFFICERS	767	0	767
(704) EMPLOYEE PENSIONS AND BENEFITS	2,030	(68)	1,962
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	1,848	0	1,848
(715) PURCHASED POWER	3,789	0	3,789
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	839	694	1,533
(720) MATERIALS AND SUPPLIES	1,507	0	1,507
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	255	0	255
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	14,704	2,987	17,691
(740) RENTS	12	0	12
(750) TRANSPORTATION EXPENSE	798	257	1,055
(755) INSURANCE EXPENSE	1,048	0	1,048
(765) REGULATORY COMMISSION EXPENSE	5,040	6,326	11,366
(770) BAD DEBT EXPENSE	344	0	344
(775) MISCELLANEOUS EXPENSE	2,246	(298)	1,948
	<u>\$41,530</u>	<u>\$10,985</u>	<u>\$52,515</u>

LAKE PLACID UTILITIES, INC.		SCHEDULE NO. 4-A	
TEST YEAR ENDED 12/31/12		DOCKET NO. 130243-WS	
MONTHLY WATER RATES			
	UTILITY EXISTING RATES	STAFF PRELIMINARY RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size:			
5/8" x 3/4"	\$13.85	\$17.81	\$1.08
3/4"	\$20.78	\$26.72	\$1.62
1"	\$34.63	\$44.53	\$2.71
1-1/2"	\$69.26	\$89.05	\$5.41
2"	\$110.81	\$142.48	\$8.66
3"	\$221.63	\$284.96	\$17.33
4"	\$346.30	\$445.25	\$27.07
6"	\$692.60	\$890.50	\$54.14
Charge per 1,000 Gallons	\$5.80	\$7.54	\$0.46
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$25.45	\$32.89	
6,000 Gallons	\$48.65	\$63.05	
8,000 Gallons	\$60.25	\$78.13	

LAKE PLACID UTILITIES, INC.		SCHEDULE NO. 4-B	
TEST YEAR ENDED 12/31/12		DOCKET NO. 130243-WS	
MONTHLY WASTEWATER RATES			
	UTILITY EXISTING RATES	STAFF PRELIMINARY RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes	\$13.94	\$14.18	\$1.38
Charge per 1,000 Gallons - Residential*			
*6,000 gallon cap	\$5.75	\$6.44	\$0.63
Flat Rate	\$27.72	\$25.73	\$2.50
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8" x 3/4"	\$13.94	\$14.18	\$1.38
3/4"	\$20.90	\$21.27	\$2.07
1"	\$34.82	\$35.45	\$3.44
1-1/2"	\$69.65	\$70.90	\$6.88
2"	\$111.44	\$113.44	\$11.02
3"	\$222.87	\$226.88	\$22.03
4"	\$348.24	\$354.50	\$34.42
6"	\$696.46	\$709.00	\$68.84
Charge per 1,000 Gallons – General Service	\$6.90	\$7.73	\$0.75
<u>Bulk Service</u>			
Deeann Estates	\$474.62	\$476.45	\$46.26
Charge per 1,000 gallons	\$5.52	\$6.19	\$0.60
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$25.44	\$27.06	
6,000 Gallons	\$48.44	\$52.82	
8,000 Gallons	\$48.44	\$52.82	